

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AUDIT

PUTNAM COUNTY HOSPITAL
A COMPONENT UNIT OF PUTNAM COUNTY
PUTNAM COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
03/13/2014

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Chief Executive Officer	Dennis Weatherford	01-01-12 to 12-31-14
Chairman of the Hospital Board	David Bray	01-01-12 to 12-31-14
President of the Board of County Commissioners	Kristina Warren Donald K. Walton	01-01-12 to 12-31-12 01-01-13 to 12-31-14



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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE PUTNAM COUNTY HOSPITAL, PUTNAM COUNTY, INDIANA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Putnam County Hospital (Hospital), a component unit of Putnam County, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America, requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.


Paul D. Joyce, CPA
State Examiner

February 11, 2014

FINANCIAL STATEMENTS

The financial statements and accompanying notes were prepared by management of the Hospital. The financial statements and notes are presented as intended by the Hospital.

PUTNAM COUNTY HOSPITAL
STATEMENT OF NET POSITION
December 31, 2012

Assets

Current assets:	
Cash and cash equivalents	\$ 2,209,895
Patient accounts receivable, net of estimated uncollectibles of \$3,845,039	5,105,848
Supplies and other current assets	1,506,340
Noncurrent cash and investments:	
Internally designated	2,386,792
Restricted by contributors and grantors	94,358
Capital assets:	
Land and construction in progress	293,751
Depreciable capital assets, net of accumulated depreciation	16,456,561
Other assets	<u>358,652</u>
Total assets	<u>\$ 28,412,197</u>

Liabilities and Net Position

Current liabilities:	
Current maturities of long-term debt	\$ 1,296,264
Accounts payable and accrued expenses	1,365,137
Estimated third-party payor settlements	433,947
Other current liabilities	445,536
Long-term debt, net of current maturities	<u>12,457,052</u>
Total liabilities	<u>15,997,935</u>
Net position:	
Net investment in capital assets	2,996,996
Restricted:	
Expendable for specific operating activities	94,358
Unrestricted	<u>9,322,908</u>
Total net position	<u>12,414,262</u>
Total liabilities and net position	<u>\$ 28,412,197</u>

The accompanying notes are an integral part of the financial statements.

PUTNAM COUNTY HOSPITAL
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2012

Operating revenues:	
Net patient service revenue (net of provision for bad debt)	\$ 30,563,901
Net nursing home operating revenue	2,822,049
Other	<u>239,878</u>
Total operating revenues	<u>33,625,828</u>
Operating expenses:	
Salaries and benefits	19,917,602
Medical supplies, drugs, and food	4,097,049
Insurance	595,351
Other supplies	1,692,877
Depreciation and amortization	2,026,066
Hospital assessment fee	1,562,699
Other operating expense	<u>5,120,293</u>
Total operating expenses	<u>35,011,937</u>
Operating loss	<u>(1,386,109)</u>
Nonoperating revenues (expenses):	
Investment income	9,196
Interest expense	(668,366)
Noncapital grants and contributions	39,304
Other nonoperating revenue	1,897,394
Nonoperating expense	<u>(38,240)</u>
Total nonoperating revenues (expenses)	<u>1,239,288</u>
Decrease in net position	(146,821)
Net position beginning of the year	<u>12,561,083</u>
Net position end of the year	<u>\$ 12,414,262</u>

The accompanying notes are an integral part of the financial statements.

PUTNAM COUNTY HOSPITAL
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 32,771,704
Payments to suppliers and contractors	(6,401,490)
Payments to employees	(19,833,684)
Other receipts and payments, net	<u>(4,932,499)</u>
Net cash provided/(used) by operating activities	<u>1,604,031</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions net of expenses	1,063
Other	<u>484,020</u>
Net cash provided/(used) by noncapital financing activities	<u>485,083</u>
Cash flows from capital and related financing activities:	
Principal paid on long-term debt	(1,200,419)
Interest paid on long-term debt	(668,366)
Acquisition and construction of capital assets	<u>(1,865,773)</u>
Net cash provided/(used) by capital and related financing activities	<u>(3,734,558)</u>
Cash flows from investing activities:	
Interest and dividends on investments	<u>9,196</u>
Net cash provided/(used) by investing activities	<u>9,196</u>
Net increase/(decrease) in cash and cash equivalents	(1,636,248)
Cash and cash equivalents at beginning of year	<u>6,327,293</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,691,046</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Position:	
Cash and cash equivalents in current assets	\$ 2,209,895
Restricted cash and cash equivalents	<u>2,481,150</u>
Total cash and cash equivalents	<u><u>\$ 4,691,046</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (1,386,109)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation and amortization	2,026,066
(Increase) decrease in current assets:	
Patient accounts receivable (net)	948,453
Supplies and other current assets	225,234
Other assets	(132,851)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	(108,596)
Other current liabilities	83,918
Estimated third-party payor settlements	<u>(52,084)</u>
Net cash provided/(used) in operating activities	<u><u>\$ 1,604,031</u></u>

Noncash Transactions:

The Hospital entered into two capital leases during the year. One for copiers at \$52,469 and the other for SANS equipment at \$83,904.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Putnam County Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Putnam County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Putnam County.

The accompanying financial statements present the activities of the Hospital (primary government). There are no significant component units which require inclusion.

B. Long-Term Care Facilities

Pursuant to the provision of long-term care, the Hospital owns the operations of two long-term care facilities by way of an arrangement with the managers of the following facilities, Wesleyan Homes of Indiana, Inc., a 43 bed licensed comprehensive care facility and The Waters of Princeton II, LLC., a 95 bed licensed comprehensive facility. These facilities provide inpatient and therapy services. Generally, gross revenues from the operation of the facilities are the property of the Hospital and the Hospital is responsible for the associated operating expenses and working capital requirements. While the management and related lease agreements are in effect, the performance of all activities of the managers shall be on behalf of the Hospital and the Hospital retains the authority and legal responsibility for the operation of the facilities.

During 2012, the Hospital entered into lease agreements with the long-term care facilities, collectively referred to as the Lessors, to lease the facilities managed by the Managers. Concurrently, the Hospital entered into agreements with the Managers to manage the above leased facilities. As part of the agreements, the Hospital will pay the Managers a management fee to continue managing the facilities on behalf of the Hospital in accordance with the terms of the agreements. These management fees consist of base management fees, subordinated management fees, and quarterly incentive payments. The agreements expire at various times through November 30, 2014. The terms of these agreements may be renewed at the end of each term for an additional period of two years. All parties involved can terminate the agreement without cause with 90 days written notice.

C. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Accounting Standards

During 2012, the Hospital adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which supersedes GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Hospital's net position, changes in net position, cash flows, or financial reporting disclosures.

Also during 2012, the Hospital adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources of Net Position, which primarily resulted in renaming net assets to net position within the financial statements. GASB No. 63 has been applied retroactively in the accompanying financial statements.

F. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of three months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Position.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 1,000	Straight-line	2-25 years
Buildings and improvements	1,000	Straight-line	10-40 years
Equipment	1,000	Straight-line	3-25 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$668,366. None the amount was included as part of the cost of capital assets under construction.

3. Net Position

Net position of the Hospital is classified in three components.

Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note II G.

The financial statements report \$94,358 of restricted net position, none of which is restricted by enabling legislation.

Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

G. Grants and Contributions

From time to time, the Hospital receives grants from Putnam County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

H. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note II G.

I. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

J. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

K. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

L. Premium Revenue

The Hospital had agreements with various health management organizations (HMO's) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMO's make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

M. Electronic Health Records (EHR) Incentive Payments

The Hospital receives EHR incentive payments under Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet "meaningful use" criteria that become more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30).

The payment calculation is based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100 percent in first payment year and thereby decreasing by 25 percent each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as other nonoperating revenue when there is reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific contract requirements. In addition, the financial statement effects of the revenue must be both recognizable and measureable. During 2012, the Hospital recognized approximately \$1,200,000 in EHR incentive payments as other nonoperating revenue using the ratable recognition method. Under the ratable recognition method, the Hospital recognizes revenue ratably over the entire EHR reporting period when it is reasonably assured at the outset of the EHR reporting period that it will comply with the minimum requirements of the program.

EHR incentive revenue is included in other nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Position. EHR incentive income recognized is based on management's estimate and amounts are subject to change, with such changes impacting operations in the period the changes occur.

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the programs, subject to future audits and may be subject to repayment upon a determination of noncompliance.

N. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

O. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

P. Compensated Absences

The Hospital's policy on paid days off (which includes vacation, sick leave, and holidays) allows full-time employees and regular part-time employees to accrue paid days off, to a maximum of 72 days.

Paid days off are accrued when incurred and reported as a liability.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Q. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the Statement of Net Position for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the Statement of Net Position is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the Statement of Net Position, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the Statement of Net Position for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the Statement of Net Position for estimated third-party payor settlements approximates its fair value.

Long-Term Debt

Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2012, the Hospital had deposit balances in the amount of \$4,691,045.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. The Hospital does not have any investments at December 31, 2012.

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 6,606,328
Receivable from Medicare	1,784,983
Receivable from Medicaid	<u>559,576</u>
Total patient accounts receivable	8,950,887
Less allowance for uncollectible amounts	<u>3,845,039</u>
Patient accounts receivable, net	<u><u>\$ 5,105,848</u></u>

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 673,655
Payable to suppliers	676,169
Other	<u>15,313</u>
Total accounts payable and accrued expenses	<u><u>\$ 1,365,137</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 159,364	\$ -	\$ -	\$ 159,364
Construction in progress	<u>158,290</u>	<u>1,499,800</u>	<u>1,523,703</u>	<u>134,387</u>
Total capital assets, not being depreciated	<u>317,654</u>	<u>1,499,800</u>	<u>1,523,703</u>	<u>293,751</u>
Capital assets, being depreciated:				
Land improvements	297,478	-	-	297,478
Buildings and improvements	28,416,531	62,535	-	28,479,065
Equipment	<u>15,730,128</u>	<u>1,963,516</u>	-	<u>17,693,644</u>
Totals	<u>44,444,137</u>	<u>2,026,050</u>	-	<u>46,470,187</u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Land improvements	(228,783)	(3,556)	-	(232,339)
Buildings and improvements	(15,610,340)	(1,056,651)	-	(16,666,991)
Equipment	(12,148,437)	(965,859)	-	(13,114,297)
Totals	<u>(27,987,560)</u>	<u>(2,026,066)</u>	<u>-</u>	<u>(30,013,626)</u>
Total capital assets, being depreciated, net	<u>16,456,577</u>	<u>(16)</u>	<u>-</u>	<u>16,456,560</u>
Total primary government capital assets, net	<u>\$ 16,774,232</u>	<u>\$ 1,499,784</u>	<u>\$ 1,523,703</u>	<u>\$ 16,750,312</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Expended to December 31, 2012</u>	<u>Committed</u>
Putnam County Hospital Room Remodels 4th Floor	\$ 28,393	\$ 35,000
Putnam County Hospital ER Remodel 2011	2,532	10,000
Putnam County Hospital Tsystem	<u>103,462</u>	<u>150,000</u>
Totals	<u>\$ 134,387</u>	<u>\$ 195,000</u>

E. Leases

1. Operating Leases

The Hospital has entered into operating leases having initial or remaining noncancelable terms exceeding one year for a postage machine and copy machines. Rental expenditures for these leases were \$27,171. The following is a schedule by years of future minimum rental payments as of year end:

2013	\$ 3,771
2014	3,252
2015	1,932
2016	<u>1,251</u>
Total	<u>\$ 10,206</u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Capital Leases

The Hospital has entered into various capital leases for medical equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year-end are as follows:

2013	\$ 604,263
2014	538,288
2015	374,793
2016	121,978
2017	<u>7,904</u>
 Total minimum lease payments	 1,647,226
 Less amount representing interest	 <u>86,165</u>
 Present value of net minimum lease payments	 <u>\$ 1,561,061</u>

Assets acquired through capital leases still in effect are as follows:

Equipment	\$ 2,518,564
Accumulated depreciation	<u>(862,985)</u>
 Total	 <u>\$ 1,655,579</u>

F. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes, including interest of \$4,524,009, are as follows:

	<u>Principle</u>	<u>Interest</u>
2013	\$ 742,931	\$ 546,226
2014	785,318	503,843
2015	804,053	485,108
2016	855,704	429,951
2017	838,228	408,858
2018-2022	4,607,808	1,422,356
2023-2027	2,511,162	457,208
2028-2032	608,606	229,392
2033-2035	<u>447,765</u>	<u>41,067</u>
 Totals	 <u>\$ 12,192,256</u>	 <u>\$ 4,524,009</u>

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2012, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 1,927,057	136,374	502,371	\$ 1,561,061	\$ 553,332
Notes payable	<u>12,890,305</u>	<u>-</u>	<u>698,049</u>	<u>12,192,256</u>	<u>742,931</u>
Total long-term liabilities	<u>\$ 14,817,362</u>	<u>\$ 136,374</u>	<u>\$ 1,200,419</u>	<u>\$ 13,753,316</u>	<u>\$ 1,296,264</u>

G. Endowments and Restricted Net Position

Restricted, expendable net position is available for the following purposes:

	<u>2012</u>
Restricted by contributors:	
General	<u>\$ 94,358</u>

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Medicaid and hospital assessment fee

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

During 2012, Indiana Hospital Assessment Fee (HAF) Program was approved by the Centers for Medicare & Medicaid Services. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid enhanced payments relate to both fee for service and managed care claims. The Medicaid enhanced payments are designed to follow the patients and result in increased Medicaid rates.

During 2012, the Hospital recognized HAF Program expense of approximately \$1,755,000 which resulted in Medicaid rate increases of approximately \$3,522,000. The HAF Program expense is included in expenses in the Statement of Revenues, Expenses, and Changes in Net Position. The Medicaid rate increases under the HAF Program are included in patient service revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

Revenue from the Medicare and Medicaid programs as a percent of the Hospital's net patient revenues cannot be accurately determined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2012 net patient service revenue has not been adjusted for any prior-year settlements or years that are no longer subject to audits, reviews, and investigations.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

I. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$923,885 (less than 1 percent) for 2012.

J. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.

Internally designated:

Funded depreciation:

Cash and cash equivalents \$ 2,386,792

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees, and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past 3 years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees and dependents. The risk financing fund is accounted for in the General Ledger where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$70,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

However, claim liabilities cannot be reasonably estimated.

B. Subsequent Events

Subsequent to December 31, 2012, the Hospital entered into an agreement with an additional long-term care facility. The Hospital is also in the process of entering into an agreement with a current lessor entity to lease additional long-term care facilities operated by related management companies.

C. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

D. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

PUTNAM COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
(Continued)

Investments recorded in the statement of net position are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Hospital has the ability to access. Investments include mutual funds and corporate equity securities.

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and municipal bonds that trade infrequently and privately held securities and certificates of deposit.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments could be certain private equity investments.

The Hospital did not have investments at December 31, 2012.

E. Pension Plan

Defined Contribution Pension Plan

Putnam County Hospital Employee Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by Lincoln Financial Group as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

Lincoln Financial Group
P.O. Box 2340
Fort Wayne, IN 46801-2340
Phone: 800-248-0838

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital fully funds the plan by contributing 4 percent of the annual covered payroll. A second provision of the plan established pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended, allows for voluntary contributions for the purpose of purchasing retirement annuity contracts. Employer and employee contributions to the plan for 2012 and 2011, were \$230,606 and \$399,759, respectively.

PUTNAM COUNTY HOSPITAL
AUDIT RESULTS AND COMMENTS

COMPENSATION AND BENEFITS

Compensation and benefits were not paid to the Hospital Board members through the payroll system; therefore, payroll taxes were not withheld and remitted to the appropriate taxing agencies. The seven Board members were each issued a Form 1099 reporting the amounts paid to them. The compensation and benefits paid to these employees for the year 2012 was \$3,600 each.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

INTERNAL CONTROLS

Internal controls over the preparation of the financial statements and notes to the financial statements were insufficient to prevent, or detect and correct, errors in the financial statements and notes to the financial statements. The financial statements presented for audit did not incorporate the information required by accounting principles generally accepted in the United States of America for Financial Reporting, specifically the requirements of Statements No. 62 and No. 63 of the Governmental Accounting Standards Board (GASB). Audit adjustments were proposed, accepted by the Hospital, and made to the financial statements and notes to the financial statements presented in this report. These adjustments resulted in a presentation that is in compliance with the accounting principles generally accepted in the United States of America.

The Hospital should have proper controls in place over the preparation of the financial statements to ensure accurate reporting. Without a proper system of internal control in place that operates effectively, material misstatements of the financial statements could remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals, Chapter 1)

PUTNAM COUNTY HOSPITAL
EXIT CONFERENCE

The contents of this report were discussed on February 11, 2014, with Dennis Weatherford, Chief Executive Officer; Roger Boruff, Chief Financial Officer; Mary K. Stephenson, Accounting Manager; and Andrea L. Mescall, Cost Accountant/Financial Analyst. The officials concurred with our audit findings.